IBM

Closing the Tax Revenue Gap with IBM Tax Compliance Intelligence

IBM Tax Compliance Intelligence is a powerful, sophisticated solution that can be configured to meet your agency's tax compliance needs.

Highlights

■ **Implement a robust relationship resolution capability across registration, filing, collections, payments and audit**

■ **Demonstrate enhanced, quantifiable revenue compliance analysis outcomes, and enable tax revenue improvements**

■ **Build on existing investments to optimize investment in skills and infrastructure**

■ **Create an innovate real time tax intelligence solution that aids in detecting potential non-compliance, revenue losses and to ensure tax compliance**

■ **Protect tax payer privacy while sharing information**

■ **Use proven IBM technologies and techniques to implement**

Strategic issues

Today's tax agencies typically lose 15 per cent or more of total revenues to tax evasion and other types of non-compliance –known as the 'tax gap.' At a time when tax evasion techniques have grown more sophisticated, agencies have simultaneously been hit with a cascade of budgetary and staffing restrictions, continually changing tax statutes and more rigorous requirements for privacy.

As a result of these pressures, many agencies continue to rely on audit selection, tax collection and enforcement methods they know to be outdated. These methods are reinforced by reliance on data and data relationships that are outdated and insufficient to promote maximum compliance, that is, they lack innovative data matching / comparison capabilities.

Tax agencies are facing strategic issues which require major changes in the way they do business. They need to:

• Address growing public pressure to deliver more tax revenue

ON DEMAND BUSINESS™

- Provide tax compliance collectors with a solution that supports and empowers them to make better, real time decisions
- Ensure the public that efforts are being made to aggressively identify and pursue evaders, while protecting honest taxpayers from onerous examinations
- Detect and mitigate fraud to manage risk and follow-up on tax avoiders, underground economy
- Protect privacy of tax payer information internally and with external entities

Tax Gap Scenarios

Many tax agencies finding it extremely challenging to detect tax evasion and compliance in the following four scenarios.

Serial Debtors / Collections

- ABC Company accrues a large delinquent income tax withholding debt
- John Doe, sole owner, closes the ABC Company
- 2 months later, XYZ Company opens in same location and registers with Tax Agency, with Jane Doe listed as owner
- This same pattern may occur multiple times, with names of different family members
- The result: taxpayer avoids payment of delinquent tax debt(s)

Compliance Web/Taxpayer Registration

- The ABC Company registers with Tax Agency
- ABC Company is owned by Mega Corporation and ABC Partners (a partnership)
- Mega Corporation wholly owns two other entities and partially owns four other entities. Of these six entities, 5 have delinquent tax debts
- ABC Partners partially owns eight other entities, two of which have delinquent tax debt
- The result: ABC Company accrues a delinquent tax debt

Non-Filer

- John Doe lives and works at a full-time job in New York
- Mr. Doe purchases a vacation home in Florida (which has no state income tax)
- Mr. Doe declares his Florida home as his primary residence and stops filing a state income tax return in New York
- Mr. Doe opts to live in his New York home from May to September and his Florida home from October to April. From October to April, he commutes to New York every third week for work, working from his vacation home during the other two weeks
- The result: Mr. Doe avoids paying state income tax in New York

VAT Tax / Transfer pricing schemes

- XYZ Phones, N.A., manufactures mobile telephones in the Netherlands
- XYZ Phones also has a manufacturing facility in South Africa that is operated by a wholly owned subsidiary – UVX Phones
- XYZ Phones manufactures all components of mobile phones, with the exception of the plastic casing, for €25.00 each
- XYZ Phones sells the mobile phones to UVX Phones for 20.00 each. UVX Phones adds the plastic casing to the mobile phones and sells the completely manufactured phones back to XYZ Phones for €50.00 each
- The result: XYZ Phones moves profit to a lower tax jurisdiction (South Africa) and lowers the Value Added Tax payable

Intensifying Challenges… Why Now?

Today's intensifying tax agency challenges mandate a fresh approach to managing tax compliance and fraud information.

- Multiplication of fraud types, frequency, complexity and interconnectedness of people and organizations
- Fraud is increasingly asymmetrical
- Explosion in complexity of fraud identification

- Frequency of transaction/interactions
- Transparency is clouding
- Regulatory pressures are increasing
- Intensifying budget and tax revenue pressures
- Customer centric approach

Current approaches have become obsolete.
- SSN and/or EIN are no longer reliable as the sole means of identification and linkage to other taxpayers
- Information is compartmentalized – lack of full integration is obscuring visibility
- Query state limits ability to address complexity of fraud - you need to know the right question to ask
- Untimely – fraud identified ex-post facto.
- Inaccurate – broadscale false positives and false negatives
- Out of context – lack of decision support/guidance once fraud is identified

More Effective Tax Payer Registration Compliance

IBM Tax Compliance Intelligence is a powerful, sophisticated solution that can be configured to meet a given agency's particular compliance needs. It helps improve the compliance process in the following ways:

- Detect and determine if tax payers are properly registered – eliminate duplicate registrations by up to 50%
- When applied at the time a tax return is filed, the system can promptly identify compliance problems, helping save years of tracking, investigation and collection costs
- Auditors require tools to know how noncompliance occurs and at the same time protect the privacy of tax payers.

IBM Tax Compliance Intelligence provides the following capabilities:

- Using name recognition, identity and relationship resolution techniques, it detects if someone is attempting to defraud or misrepresent themselves and escape paying taxes due

Recognizes multi-cultural name variations

- Kate, Cait, Catherine, Katherine, Kat
- Multiple name variations: name order, multiple titles, name variants, multiple prefixes, phonetic transpositions of nicknames

Recognizes identities

- Provides the ability to identify who people, and organizations are

Recognizes relationships

- Identities what relationships exist between a tax payer, and obvious, non-obvious people and organizations

More Effective Tax Payer Under-Reporting Compliance

Tax agencies need to determine if a tax payer of interest i.e are they 'good' or 'bad' ideally prior to any revenue loss. And if the tax payer is deemed 'out of compliance' should they be focused on and pursued. A primary reason is to establish the degree of risk associated with noncompliance. Then decide what to do and what resource(s) should be applied to the case. And, to ensure information security, integrity and privacy. With IBM's tax intelligence we:

- Provide full attribution with a complete history of a tax payer and never throw away data about them
- Real time updates and self correcting to provide a current and a more accurate view
- Multiple degrees of separation relationship insight eg. person A knows person B, and person B knows person C. The three are related by two degrees of separation
- Segment tax payers to detect who may be a higher risk to focus appropriate attention and resources where the suspect tax payer profile suggests such attention

Privacy Protection

Information about tax payers is needed to successfully follow up on leads and process cases by the tax agency. The Information is usually provided by a tax payer themselves and does not itself represent privacy issue. Difficulty arises if elements of information are combined in ways that reveal more about a person's private life than intended. Different countries take different approaches to privacy. Many countries have leg-islated privacy into their tax systems. Sometimes privacy protections are an inhibitor to good tax compliance and service. Tax payers may be willing to allow privacy information to be shared if asked and to their benefit if they provide consent.

IBM Tax Compliance Intelligence provides tax agencies:

- Ability to share identity and relationship information with third parties without disclosing the identity of the person to whom the information relates
- Support tax agency services delivery model oriented around integrated service and tax payer consent and choice

Proven Methods, Tools and Techniques

IBM has invested significant resources in Tax Compliance Intel-ligence to bring together a range of tools and techniques all specifically designed to enhance the implemen-tation of integrated tax case and risk management solutions for tax agen-cies.

A solid foundation: World class technologies from IBM

IBM is one of the largest providers of solutions to government agencies around the world. The IBM Tax Com-pliance Intelligence is built upon:

- IBM Global Name Recognition: recognizes names across mul-tiple cultural variations
- IBM Identity Resolution: identities 'who is who'
- IBM Relationship Resolution: identifies 'who knows who' by detecting relationships across multiple degrees of separation
- IBM Anonymous Resolution: allows multiple organizations to share identity and relation-ship data anonymously that never exposes the identity of an individual

For more information

To learn more about these solutions, please visit: **ibm.com/db2/eas** or contact your IBM sales representa-tive.